# Strategic Project Selection Instructions

This guideline presents strategic categories of selection criteria and discusses how to systematically develop the appropriate criteria for selecting projects in your particular organization. Portfolio projects are frequently the tactics for delivering on strategies that will accomplish the organization's major goals. This makes it important to assess whether the projects we launch are doing that.

Establishing the value of a project requires an understanding of how the organization measures its success overall. What are its goals? What are the strategies in place to achieve those goals? These goals and strategies yield **selection criteria**.

Organizations can take months identifying the criteria used to screen project candidates in order to assess which projects will be deemed the highest priorities and gain the commitment to launch. It's easy to get lost in the weeds and spend more time on the criteria than the project assessments.

This guideline is designed to help develop and enforce a discipline for measuring which projects directly support the unique goals and strategies of our organization. For each project, the question should be asked, "To what degree does this project enable us to reach each goal and each strategy?" Without that laser focus, poorly-selected screening criteria may result in high marks and corresponding effort awarded to the wrong projects. Projects that keep the organization busy and provide some value still may not move the organization toward achieving its overarching strategies and goals.

Use this list of frequently used criteria categories to quickly develop a preliminary set of screening criteria and questions to test out the screening concept in your organization.

- For each criteria category, customize the screening questions by replacing the example numbered items in black type with your own existing goals and strategies. Use the companion Strategic Project Prioritization Worksheet to record this information.

- Apply the criteria that your organization has compiled and determine the rating of the project.

- Once the points assignment has been calculated, determine where in the ranking of projects your particular project falls.

- At the end of this assessment, compare the results with that of current projects. The higher the number, the higher the priority the project should have.

- Select a sample of current projects and ask a focus group to try applying the criteria you have customized to your organization as follows: Assign a rating, or points (e.g. 0–5 or 0–100), to how well each project meets each criteria. Add up the points for each project and rank the projects by their total points or score, high to low. The projects at the top of the list are deemed to have higher relative value to the organization.

- Do a sanity check on the screening results. Do the rankings seem rational? If not, identify what type of criteria may have been omitted or included that should have been. In particular, look for items that aren't obvious but may be important to the organization. Continue to test and refine the criteria as needed until the focus group rankings ring true.

After you have a set of selection criteria that appears effective, validate them with the executive group ultimately responsible for making the final decisions about approving and launching projects for the portfolio.

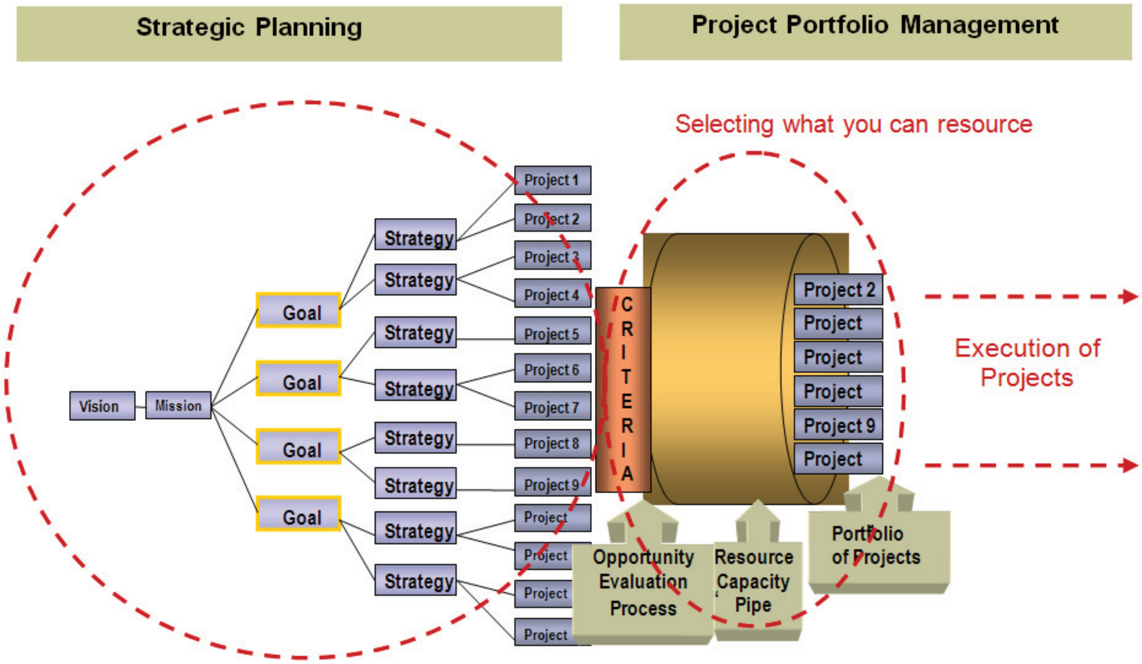
## Setting Strategic Project Selection Criteria

### INTRODUCTION

This guideline covers three categories of criteria used to screen project candidates for inclusion in the organization's portfolio of projects: strategic criteria, risk-related criteria, and compliance criteria. It focuses on how to formulate the strategic criteria in the form of screening questions you can apply to each project. The questions allow you to test each project's fit with the organization's overall business goals and strategies for meeting those goals.

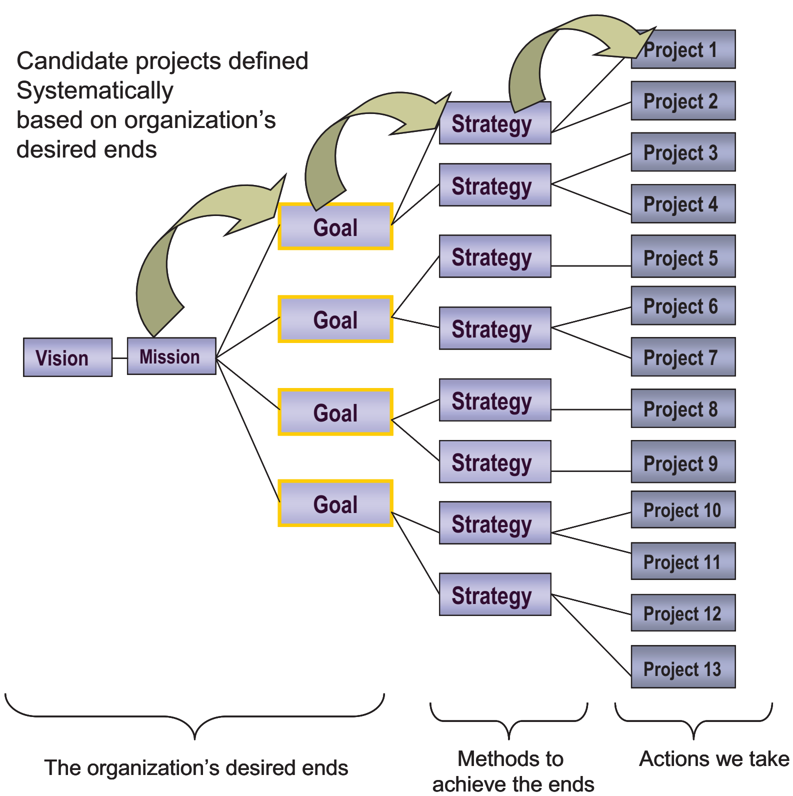
Our related Strategic Project Prioritization Worksheet template can be used to record the criteria you develop, score each project against the criteria, and create a prioritized project list.

The following diagram depicts the linkages between the State of Montana's strategic planning process and project portfolio management. This guideline supports the opportunity evaluation step (shown in the center of the diagram as the bridge between the two major processes).




## Strategic Planning Inputs to Project Selection

The first blocks in the diagram are part of an organization's strategic planning work and different companies may have different terms for how they go from their business vision to specific goals and on to projects. The diagram depicts the systematic movement from organization vision to a set of related projects.



**Typical definitions for the blocks in the diagram above:**

- **Vision:** A succinct way to paint the picture of what will be happening many years down the road when the organization's hopes and dreams for the business have been met. The vision is short and memorable. Everyone in the organization can get it. For example: "A PC in every home running Microsoft software" was Microsoft's vision from the earliest days. "America's first choice in snacking, anytime, anywhere" was Nabisco's vision.
- **Mission:** Describes the business you are in including these components:
    - Who you are, including the product or service that you provide.
    - To whom you provide products and services (who is the customer?).
    - Why you do this—what the business wants to achieve.
- **Goals:** Provides very specific, measurable goals for achieving aspects of the mission.
- **Strategies:** Outlines approaches the organization will take to achieve each goal.

See the following example of these categories for a fictional organization.

## Example: Fictional Project Management Tools Company serving market segments

**Vision:**

Our company is recognized as the first place to go when a company is ready to improve its scheduling capabilities and we painlessly increase the project management proficiency and project success of our customers

Every small to medium company in the world sees that project scheduling tools have something to offer their business and are actively using them to help ensure project success.

**Mission:**

We are the leading project scheduling software company for small to medium-sized businesses, providing fast-to-learn, low overhead project scheduling capabilities suitable for a variety of organizations. Our customers are not necessarily sophisticated at project management and are focused on tools that help them get the job done without extensive training or ongoing overhead. We provide these products in order to:

- make a profit

- become known as a major market player in the expanding project management tools space.

**Goals (next year):**

1. Enter new segment Z of the market successfully by making at least X sales to companies with employee bases of at least A and project budgets of at least $ B million.

2. Increase our sales to $X in the small company segment by making it possible for multiple people in smaller companies to try our tool without buying and installing software.

3. Increase retention of active users of our tool to 75 percent of companies actively using it after 6 months.

4. Add a new professional services revenue stream and achieve at least X sales of at least $Y by the end of the year from this new stream.

**Strategies:**

- Add Small Business Features: Create features needed by new market segment Z.

- Offer Hosted Version: Launch a hosted version of our software.

- Offer Professional Services: Create simple, streamlined support services.

- Engage with Users: Create means for staying more connected to users

**Getting from Strategies to Candidate Projects**

This guideline is ensures that your project selection criteria lead you to choose projects that fulfill the organization's strategies for meeting customer and financial goals.

Once the organization has identified what it is trying to accomplish—its vision and mission, goals and strategies—the critical next level of detail is identification of specific projects that will carry out the strategies. These projects become candidates for inclusion in the organization's project portfolio. This total landscape, from vision all the way to projects, may be referred to as the "strategic plan". When you follow it from right to left, it describes exactly what projects you will do to deliver on each strategy which, in turn, should result in achieving the goals and mission of the organization.

Again, using the example of the project management tools company on the previous page, this table shows a worksheet approach for systematically linking your goals to strategies to potential projects. It shows the possible strategies and projects for one of the listed goals.

*Note: The example on the previous page just listed goals and possible strategies, while this table encourages you to map the linkages so you can examine whether you've defined strategies and projects to fulfill each goal.*

| GOALS | STRATEGIES | POSSIBLE PROJECTS |
|---|---|---|
| Goal #3: Increase retention of active users of our tool to 75 percent of companies actively using it after 6 months. | Strategy C.<br>Offer Professional Services: Create streamlined support services. | Webinar: Create one-hour free webinar on PM basics tied to using the tool.<br>One-Day course: Create one-day introduction to PM on-site course.<br>Setup-Service: Design and launch online (phone and web) setup service to help new users configure their schedule setup. |
| | Strategy D.<br>Engage with Users: Create means for staying more connected to users. | Pilot User Group: Design and launch user group by mid-year to test interest and needs.<br>Full user group: Add events and other perks to user group and launch to all customers by end of year.<br>User conference: Hold an annual user conference to generate interest and interaction.<br>Outreach campaign: Personally call users to survey them on needs and answer questions. |

## Setting Criteria to Rank How Well a Project Supports a Strategy

Just because a project supports a strategy does not guarantee it will pass into the project portfolio. The project is still competing with other candidates for the limited resources of the organization. Each project should be evaluated for how well it supports related strategies to deliver on the very measurable goals.

Our fictional tools company has the following strategies:

- Add Small Business Features
- Offer Hosted Version
- Offer Professional Services

- Engage with Users
- Get Certification

What we still need is a way to bridge from the strategies and the project candidates to a subset of projects to undertake. “Selection criteria” are the means and we can use the goals and strategies to express criteria in the form of questions. No matter what level of supporting analysis data is desired for evaluating projects (which can be very different depending on your organization and its executives), it’s critical to explicitly define the linkages and dependencies between strategies and specific projects to ensure that we deliver on the strategies that the organization is counting on.

The following sub-sections show how to turn the goals and strategies into questions and apply a numerical rating to each for 3 different types of categories: strategic criteria, risk criteria and compliance criteria.

## Category 1: Strategic Criteria

This is the key category of criteria we’re discussing in this guideline—the one we use to test each project against the goals and strategies the organization has identified in its strategic planning.

Each goal and each strategy is turned into a screening question and numerical ratings applied to test the degree of fit of each project.

**Numeric Ratings for Strategic Criteria:**

- 9 – Strong Alignment or Strong Potential to Impact
- 3 – Moderate Alignment or Moderate Potential to Impact
- 1 – Limited Alignment or Limited Impact
- 0 – No Relationship

*See the example breakdown from our fictional tools company.*

## Strategic Criteria – Testing Alignment with and Impact on Organizational Goals

The numbered items each represent one of the goals we’ve identified.

### To what degree would this project enable our goal to:

Enter new segment Z of the market successfully by making at least X sales to companies with employee bases of at least A and project budgets of at least $ B million?

1. Increase our sales to $X in the small company segment by making it possible for multiple people in smaller companies to try our tool without buying and installing software?

2. Increase retention of active users of our tool to 75 percent of companies actively using it after 6 months?

3. Add a new revenue stream and achieve at least X sales of at least $Y by the end of the year from this new stream?

### Strategic Criteria – Testing Alignment with and Impact on Organizational Strategies

The lettered items each represent one of the strategies we've identified.

**To what degree would this project enable our strategy to:**

- Add Small Business Features
- Offer Hosted Version
- Offer Professional Services
- Engage with Users

**Numeric Ratings for Strategic Criteria:**

- 9 – Strong Alignment or Strong Potential to Impact
- 3 – Moderate Alignment or Moderate Potential to Impact
- 1 – Limited Alignment or Limited Impact
- 0 – No Relationship

## Category 2: Risk Criteria

This category of criteria tests how well projects guard against potential risks to the business and its performance.

### Risk Criteria – Risk to Compliance

Is this project required to fulfill a regulatory requirement (without which we will be prohibited from doing business as usual)?

**Numeric Ratings for Compliance Criteria:**

If the answer to this question is yes, the point value of the response will be 100.

This is because regulatory compliance trumps all other categories, since the organization cannot choose not to do the project unless they change the business they are in.

If the answer is no, the point value of the response will be zero.

### Risk Criteria – Risk to Staying in Business

To what degree would NOT performing this project:

- Decrease our service levels to our customers?
- Enable a specific competitor to take a share of our market?

**Numeric Ratings for Risk Criteria (Risk associated with NOT doing the project)**

- 9 – Strong, greater than 10%
- 3 – Moderate, 5% - 10%
- 1 – Limited, less than 5%
- 0 – Not at all

***Note:*** *These ranges can be adjusted to fit how your company wants to weigh risk.*

### Risk Criteria – Risk to Project Completion

What is the probability we will successfully implement the desired result?

**Numeric Ratings for Probability of Success Criteria:**

- 9 – Strong, 100%
- 3 – Moderate, 70% - 95%
- 1 – Limited, 30% - 65%
- 0 – All but none

## Category 3: Sizing Information

The items in this category are not criteria, nor are they part of the overall score used to prioritize a project. However, the information requested here serves to inform decision makers of additional critical information before selecting projects for the portfolio.

Having this information available for initial project screenings brings some rigor to the process. It may also be needed to help make hard choices between projects that score similarly on the criteria rankings.

## Monetary Investment

What is the Net Present Value (NPV) of the project? (or other financial way of valuing the project as preferred by your organization).

$__________

**Overview of NPV Calculation**

Each cash inflow/outflow created by the project is discounted back to its present value, then all are summed.

Net Present Value is the great equalizer of financial analysis. It has become a popular measurement in the evaluation of projects. NPV allows us to compare and evaluate investments (projects) and determine which are the better ones.

The NPV formula calculates how much cash will be generated from the outcome of a project, minus the initial cost of the project. The higher the resulting number ($NPV), the more attractive the project appears:

$$\mathrm{NPV} = \sum_{t=1}^{n} \frac{C_t}{(1+r)^t} - C_0$$

Where:

$t$ = the time of the cash flow

$n$ = the total time of the project

$r$ = the discount rate

$C_t$ = the net cash flow (the amount of cash) at time t.

$C_0$ = the capital outlay at the beginning of the investment time ( $t = 0$ )

Although calculating NPV is very helpful in comparing competing projects, it is but one measurement that can be applied in the evaluation of investment candidates. There may be one or more different financial measurements that are as, or more, appropriate to measure value for your organization.

## Human Resource Investment

The capacity of the organization to absorb and deliver on each project is of course also critical. Without knowledge of what the resource capacity is, organizations will attempt to launch every strategy-related project along with other “staying in business” operational projects in the portfolio. Perhaps the greatest risk to an organization’s ability to deliver on its strategies, goals, and mission is committing to more projects than it can possibly deliver.

Ask the following question for each project:

*How many people will work on this project by major resource category?*

| Resource Category | # People | How many months? | # of FTEs |
|---|---|---|---|
| **Marketing** | X | Y | (X*Y)/12 |
| **Product Development** | | | |
| **Operations** | | | |
| **Finance** | | | |
| **Human Resources** | | | |
| **Other** | | | |

**FTE (Full-Time Equivalent.)**

FTE describes the virtual number of people needed on a project from within a resource category. For example, if the project needed 1 person from Finance for a 6-month period, that would be represented as 0.5 FTEs. If a resource category only has 4 people, this sample project would use up 13% of all the resources from that category. Using faceless FTEs is effective during initial estimating to provide an order of magnitude for understanding competition among resources.

A basic tenet of Project Portfolio Management is, "Do not launch what you cannot resource." Comparing a project's resource consumption to the organization's resource capacity is essential in order to adhere to this tenet.

## Using the Selection Criteria to Prioritize Projects

One approach for prioritizing projects using the selection criteria questions is to create a worksheet that ranks projects against the criteria and incorporates scoring calculations. The figure below shows the end result of applying questions raised in the previous sections.

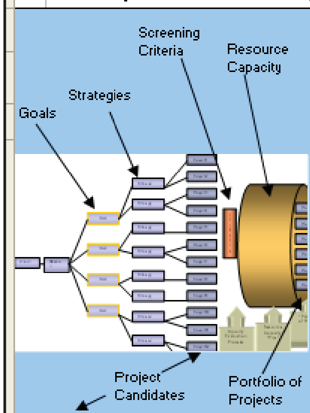
(This figure depicts the form provided in our related Strategic Project Selection Worksheet template. See that file for an editable version of this worksheet.)

The columns allow you to record each of the criteria questions in the three categories—strategic, compliance and risk.

The cells in those columns then allow you to record how each candidate project is rated for its degree of impact on each area.

The sum of the individual strategy impact ratings provides an overall project “strategy value score”. This score is integrated with a project’s ratings on other evaluation criteria: risk and compliance. The resulting total project score is then used for the initial prioritization of project candidates.

**STRATEGIC PROJECT PRIORITIZATION WORKSHEET** — Customize any cells with white background.




| | Project Candidates | Strategic Criteria | | | | | | | | | | | Risk Criteria | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Goal Alignment / Impact: To what degree would this project enable our goal to: | | | | | Strategy Alignment / Impact: To what degree would this project enable our strategy to: | | | | | | Compliance: Is this project required to: | Staying in Business: To what degree would NOT doing this project: | | Completion | | RANK |
| | | 1 | 2 | 3 | 4 | 5 | A | B | C | D | E | | | | | | | |
| | | Enter newmarket segment Z? | Increase sales in small company segment to $X | Increase retention of active users to 75% after 6 months | (Avilable for an additional goals) | (Available for an additional goal) | Add small business features | Offer hosted version | Offer professional services | Engage with users | (Available for another strategy) | **Total Strategic Points** | Fulfill a regularoty requirement (without which we will be prohibited from doing business as usual)? **YES=100, NO=0** | Decrease our service levles to our customers? | Enable a specific competitor to take a share of our market? | What is the probability of succesfully implementing this project? | **Total Risk Points** | **OVERALL PROJECT SCORE** |
| 1 | Create PM basics Webinar | 1 | 9 | 3 | | | 0 | 0 | 3 | 1 | | **17** | 0 | 9 | 0 | 3 | **12** | **29** |
| 2 | Create one-day PM course | 9 | 3 | 3 | | | 0 | 0 | 9 | 3 | | **27** | 0 | 0 | 0 | 3 | **3** | **30** |
| 3 | Launch setup service | 9 | 9 | 9 | | | 0 | 0 | 9 | 3 | | **39** | 0 | 3 | 0 | 3 | **6** | **45** |
| 4 | Pilot user group | 0 | 3 | 3 | | | 0 | 0 | 0 | 9 | | **15** | 0 | 0 | 1 | 3 | **4** | **19** |
| 5 | Launch full user group | 0 | 0 | 3 | | | 0 | 0 | 0 | 9 | | **12** | 0 | 0 | 0 | 9 | **9** | **21** |
| 6 | User conference | 1 | 0 | 1 | | | 0 | 0 | 3 | 9 | | **14** | 0 | 1 | 0 | 3 | **4** | **18** |
| 7 | Execute outreach campaign | 1 | 0 | 9 | | | 0 | 0 | 0 | 3 | | **13** | 0 | 0 | 0 | 3 | **3** | **16** |
| 8 | *Etc.* | | | | | | | | | | | **0** | | | | | **0** | **0** |

## Summary

This guideline has covered how to systematically work from your organization’s overall goals to a set of criteria that will help you judge how well each project helps the organization meet its goals. The criteria you establish using this guideline can be recorded in a worksheet such as the Strategic Project Prioritization Worksheet shown above to create a prioritized project list. See the Project Connections website for a downloadable copy of this worksheet template, with more detailed instructions and a blank copy for you to fill in.

## Administrative Information

| Revision | Author | Date | Sections Affected | Change Summary |
|---|---|---|---|---|
| 1.0 | | 1/3/2009 | | |
| | | | | |

| | |
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| Current Version | 1.0 |
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